

Message Text

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12

ACTION EB-11

INFO OCT-01 EA-11 ISO-00 TRSE-00 FRB-03 SP-03 AID-20

NSC-07 RSC-01 CIEP-03 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-04 PRS-01 USIA-15 NEA-14 IO-14 DRC-01 /177 W

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P 260850Z SEP 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 4821

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PASS TREASURY FOR F.L. WIDMAN AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: JAPANESE BANKERS' COMMENTS ON PETRODOLLAR DEPOSITS
AND FOREX MARKET OUTLOOK

1. JAPANESE FOREX BANKS REPORT RECEIVING FROM MOF \$500 MIL
ON SEPT 18 AND EXPECT ANOTHER \$500 MIL ON OCT 18. THESE
FUNDS REPRESENT THE \$1 BIL OF ARAB OIL MONEY
ACQUIRED BY MOF (REPORTED IN TOKYO 11847). EVIDENTLY
THESE MOF DEPOSITS ARE ONLY TEMPORARY. ONE BANKER BELIEVES
THEY WILL BE WITHDRAWN PIECEMEAL IN THE WEEKS AHEAD SO
THAT GOJ OFFICIAL RESERVES WILL INCREASE.

2. THESE ADDITIONAL FUNDS HAVE MUCH IMPROVED BANKS'
SHORT-TERM FOREX ASSET POSITION. AS RESULT, THERE IS LESS
NEED TO SEEK ADDITIONAL FUNDS IN U.S. OR EUROPE. THERE
ARE SOME SIGNS THAT BOJ MAY BE PRESSURING BANKS TO REDUCE
OVERSEAS BORROWING AND "JAPAN RATE" HAS VIRTUALLY
DISAPPEARED.

3. UNDER FOREX REGS BANKS CANNOT CONVERT MOF DEPOSITS
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INTO YEN. DOLLARS CAN ONLY BE USED TO MEET LEGITIMATE

COMMERCIAL AND BANKING FOREX PAYMENT NEEDS, INCLUDING SHORT-TERM INVESTMENTS ABROAD OR REDUCTION OF LIABILITIES. THUS SOME BANKERS SAY RECEIPT OF *500 MIL DOES NOT HAVE DIRECT FOREX MARKET IMPACT.

4. OTHER BANKERS CITE CHANGE IN PSYCHOLOGICAL CLIMATE OF JAPANESE ACQUISITION OF PETRODOLLARS ALONG WITH IMPROVED TRADE AND CURRENT ACCOUNT POSITION (REPORTED TOKYO 12034) AS MAIN FACTORS STRENGTHENING YEN IN PAST TEN DAYS (REPORTED TOKYO 12286). MOST BANKERS CONTACTED BY FINATT CONSIDER RATE WILL REMAIN RELATIVELY STABLE, AT LEAST UNTIL YEAR END. FOREX DEMAND TO PAY OFF FOUR MONTHS' IMPORT USANCE CREDIT UNLIKELY TO RISE BEFORE YEAR END. EXPORT RECEIPTS ON OTHER HAND MIGHT EVEN INCREASE SOMEWHAT. THUS DEMAND-SUPPLY SITUATION WILL BE WELL BALANCED ON COMMERCIAL TRANSACTIONS. ONE BANKER SEES NO REASON FOR FOREX RATE TO MOVE OUT OF 295-300 RATE DURING REMAINDER OF 1974.

5. AMERICAN BANKS REPORT ARBITRAGE INCENTIVE WAS AGAIN FAVORABLE IN RECENT DAYS SO THAT THEY BROUGHT IN ADDITIONAL DOLLARS UNDER THE UNUSED PORTION OF THEIR SWAP LINE. AMOUNT OF UNUSED SWAP LINES ESTIMATED AT \$200 MIL FOR ALL FOREIGN BANKS IN JAPAN AT THE PRESENT. HODGSON

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